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SUBJECT: APPAREL INDUSTRY RESPONDS TO GVN EXPORT LICENSE PLAN

REF: HCMC-DEPT/USTR EMAIL 2/9/07 B) HCMC 1399

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11. (SBU) Summary: Representatives of the apparel industry based in Ho Chi Minh City report that the GVN has agreed to implement a system of export licenses for garments exported to the United States. The HCMC branch of the American Chamber of Commerce proposed export licenses as a means of responding to the USG special textile monitoring mechanism. Exporters tell us that U.S. buyers continue to cut their orders and that the Ministry of Trade is under pressure from Vietnamese apparel manufacturers to respond to the USG monitoring mechanism. End Summary.

12. (SBU) Representatives of Vietnam's apparel industry met March 1 with the Ministry of Trade (MOT), the Ministry of Industry, the Office of Government (the Prime Minister's office), the Ministry of Finance and the Customs Department to discuss the future of Vietnamese garment exports to the United States in the wake of the USG commitment to monitor and consider self-initiating anti-dumping investigations of those exports. At the meeting, the GVN shared an inter-ministerial circular that laid out a system of "supervising" garment exports to the United States. AmCham members who attended the meeting said the circular sets up system of export licenses similar to that recommended by AmCham in a February 8 letter to the GVN. (Ref A) This system is meant to prevent transshipment and to monitor the prices of garments exported to the United States in the "sensitive categories" covered under the USG monitoring mechanism.

13. (SBU) According to AmCham's Apparel Committee, Minister of Trade Truong Dinh Tuyen said at the meeting that the GVN did not agree with the USG special monitoring program, but that the GVN wanted to establish confidence among U.S. importers, hence the export licensing plan. Deputy Minister of Industry Bui Xuan Khu said the export license system would aim to ensure there would be "no subsidies, no

transshipment and no dumping." One U.S. buyer said the export license system would be based on the Electronic Visa Information System (ELVIS) that was used by Vietnam and other countries exporting to the United States when they were subject to apparel quotas.

¶4. (SBU) Industry representatives told us the GVN decision would be helpful in the short term to mitigate uncertainty created by the USG commitment to Senators Dole and Graham to monitor apparel imports from Vietnam and consider self-initiating anti-dumping investigations of Vietnamese garment exports. Representatives told the GVN they would be making decisions this month about order volumes for July-December 2007.

¶5. (SBU) U.S. buyers say customers continue to cut orders placed in Vietnam. MAST Industries, for example, has thus far shifted USD 70 million in orders from Vietnam to China and Cambodia. This represents one-third of the value of orders placed by MAST in Vietnam in 2006. MAST plans to shift all orders out of Vietnam by the end of the year pending further clarification from the USG regarding its commitment to monitor and possibly self-initiate anti-dumping investigations.

¶6. (SBU) At the March 1 meeting, an MOT official told MAST that the MOT was under pressure to respond to the USG special monitoring mechanisms from Vietnamese apparel manufacturers, who are starting to experience the effects of the decline in orders. Vietnamese apparel manufacturers, especially small and medium-sized companies located in northern Vietnam, are being hurt more than foreign-invested factories, MAST said. The foreign firms keep orders from U.S. buyers and simply shift production from Vietnam to other countries. Foreign factories located in Vietnam often sub-contract with Vietnamese manufacturers to meet order requirements, and it is these sub-contracts that are being lost. MAST reported it was aware of at least one Vietnamese factory that had closed as a result of

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the shift in MAST orders out of Vietnam.

¶7. (SBU) U.S. retailers and Vietnamese apparel manufacturers continue to voice complaints about the USG special monitoring mechanisms. (Ref B) They praised the GVN's willingness to be responsive to the industry with the export license plan and expressed the hope that it would minimize the "threat" of anti-dumping lawsuits. They also called on the USG not to self-initiate anti-dumping investigations. One U.S. buyer said the reason that Vietnam is so critical to U.S. retailers is that it is the most competitive location to source high-end apparel. U.S. buyers have long praised Vietnam as a source for consistently high-quality garments.

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